VZCZCXRO1552
RR RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM
DE RUEHME #3321/01 1671442
ZNR UUUUU ZZH
R 161442Z JUN 06
FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC 1676
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RHEHNSC/NSC WASHDC

UNCLAS SECTION 01 OF 03 MEXICO 003321

SIPDIS

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: PREL ECON ETRD MX
SUBJECT: ENGAGING THE NEW MEXICAN ADMINISTRATION ON TRADE AND COMPETITIVENESS ISSUES

REF: MEXICO 3305 AND PREVIOUS

¶1. (SBU) Summary: This is the fourth in a series of six cables on transition issues in Mexico. Modern infrastructure, including energy, transport, and telecommunications; respect for the rule of law; and vigorous and open trade under NAFTA will provide the foundation to build a competitive Mexican society. As a partner, we must find ways to bring our own expertise to Mexican leaders and educate Mexican citizens as to the reforms Mexico needs while being sensitive to our shared history and many Mexicans' mistrust of our motives and our message. End summary.

Energy

¶2. (U) Mexico's oil production will decline beginning this year. Pemex has several opportunities to make up lost production but these are medium- and long-term projects that hinge on its ability to partner with foreign firms to bring expertise and investment capital. Mexico's greatest potential lies in the deep water of the Gulf of Mexico, but constitutional restrictions prevent Mexico from sharing ownership of the reserves with a foreign partner, an almost necessary condition for attracting outside participation. The only reforms now under discussion are modest changes to Pemex's corporate structure that would allow the company to retain and invest a greater share of its earnings. Mexico's new leadership will have to confront real changes immediately upon taking office to permit the new developments needed to offset a significant medium-term fall in production.

¶3. (SBU) Engagement: Any of the three candidates will bring with them a desire to address the situation along with experts well schooled in the industry. It is just as likely; however, that the incoming legislature will be divided and without the basic energy background to make informed decisions on the topic. Though energy in Mexico has traditionally been a "third rail" issue for U.S. engagement, incoming Mexican legislators would benefit from a non-politicized discussion on the basics of oil exploration, production, transportation, refining, and marketing; the situation in Mexico; and how Mexico's energy industry relates to the global market.

¶4. (U) Activity: Organize through local NGOs or universities, a seminar for Members of Congress and their key staff on energy and oil, to be taught by a leading Mexican or Latin American Institution through a study-trip to Brazil or Norway -- successful examples of countries like Mexico, with substantial petroleum reserves as well as

a state-run oil company.

Telecommunications and Information and Communications Technology (ICT)
--- ------------------

¶5. (U) New investors have been unable to offer competitive services in the broadcast and telecommunications sector, leaving consumers and businesses unable to afford the high price of expansion. The International Telecommunications Union's "Digital Access Index" ranks Mexico 64th, well behind nearly all other OECD members. Meanwhile, Telmex continues to control 95 percent of the fixed line market and charges high prices for network access.

¶6. (U) Engagement: The incoming administration and legislature will face the same roadblocks in the regulation and promotion of ICT. Mexico has moved slowly in the past to develop enabling policies in the sector, and technical developments will come even more rapidly over the next six years. We should use our position to better inform opinion leaders, as well as the general public, as to the changes that will be necessary to ensure that Mexico can develop the IT and telecommunications infrastructure necessary to compete.

¶7. (U) Activities:

-- Encourage regulator-to-regulator contact between Cofetel and the FCC and DOC. Sponsor speaking tours and Mexican appearances of IT and telecommunications professionals from other nations' private sectors.

-- Develop a one-day conference targeting incoming executive branch officials and legislators to help raise the visibility of ICT as a key component in Mexico's global competitiveness. Speakers for the conference will be drawn from our respective governments, multilateral organizations, academia, industry and third countries (such as Chile). We would enlist the support of the Institute of the Americas to stage the event, which will be held in early October.

Transportation

¶8. (U) Logistics costs in Mexico are some of the highest in the world, reaching over 15 percent of GDP due to both a lack of infrastructure and operating inefficiency. While the GOM began rail reforms in 1996, a disproportionately large quantity of goods are transported by road at higher cost and lower efficiency.

¶9. (U) Engagement: In April 2006, the U.S. Trade and Development Agency (USTDA) gave the Secretariat of Transportation and Communications (SCT) $1.3 million to develop a master plan for developing multi-modal corridors in Mexico to improve transport and logistics. We must go further.

¶10. (U) Activities:

--Engage the GOM in transition for follow-through on the completion and implementation of the USTDA Master Plan as a guide for logistics development to improve domestic and international trade.

-- Bring logistics experts from around the world to seminars and speaking engagements to raise public understanding that high transport costs sap Mexican competitiveness.

Commercial Law Reform

¶11. (U) Mexico needs to attract more private investment- both domestic and foreign, and by large corporations as well as small and medium size enterprises - to create more jobs and improve Mexico's supply system. Mexico's antiquated and inefficient justice system and the ongoing criminalization of commercial disputes are major constraints for commerce and investment. Mexican leaders from all three major political parties are pushing for criminal law reform; experts are also advocating for comparable reform of the commercial law system.

¶12. (U) Engagement: Commercial law reform would increase investor confidence in Mexico and would contribute directly to improved competitiveness and future economic growth. Building on the success we have had promoting criminal justice reform, we propose to address the commercial side early-on with the next administration.

¶13. (U) Activity: Offer the presidential transition team a highly-structured seminar featuring presentations and Q&A by Mexican commercial law reform advocates and international experts on the legal reform process. USAID will complement this initial high-level approach with a new project involving government and business associations to promote Mexican commercial law reform.

Trade and NAFTA

¶14. (U) Depending on the Presidential victor, the sectoral openings already achieved under NAFTA -- and the remaining few scheduled for 2008 -- could come under threat. To protect NAFTA we must make certain that the Mexican people understand and accept all the benefits it has brought them.

¶15. (U) Engagement: Full NAFTA liberalization is scheduled for January 1, 2008, with final phase-out of controls on trade in some of the most sensitive products-corn, beans, milk powder and poultry. We should engage the new administration early on to ensure these openings are not reduced or delayed.

¶16. (U) Activities:

-- Coordinate a Public Diplomacy campaign with Canada and

Mexico that explains to Mexicans the benefits they have earned over twelve years of NAFTA implementation. Work with the Secretariat of the Economy to provide content and technical support as they work through the summer to update the original 1994 NAFTA promotional video. Ensure senior U.S. officials appear in the film. Arrange to show the film in public venues throughout Mexico, including, for starters, airports and our own visa waiting areas.

-- Encourage USTR to meet with the transition team and the new Secretaries of Economy and Agriculture as soon as possible to ensure that USG views on the final NAFTA openings are clearly understood. USTR must emphasize the importance of working together to facilitate global free trade.

-- USDA and Mexico's Secretariat of Agriculture (SAGARPA) have begun a joint analysis on integrating U.S. and Mexican markets for white corn and beans. Once we complete this study, we plan to convene a seminar in late fall for leading agricultural officials from both countries to present key findings and possible problem areas. The transition team should participate in this process.

-- Schedule a Consultative Committee on Agriculture (CCA) in the fall that will include incoming and outgoing officials to promote continuing this tool to resolve

agricultural trade problems.

BASSETT